

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 EB-11 INT-08 SCEM-02 COME-00 TRSE-00

OMB-01 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00 USIE-00

CCO-00 PM-07 H-03 INR-10 L-03 NSC-10 PA-04 RSC-01

PRS-01 SPC-03 SS-20 ACDA-19 IO-14 INRE-00 NEA-10 AF-10

SCI-06 DRC-01 /159 W

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O 051005Z NOV 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 8977

INFO CINCPAC IMMEDIATE

CINCPACREPPHIL IMMEDIATE

13TH AF CLARK IMMEDIATE

C O N F I D E N T I A L MANILA 12419

E.O. 11652: GDS

TAGS: ENRG, RP

SUBJECT: PETROLEUM; CUTBACK OF SUPPLIES TO US GOVERNMENT  
MILITARY AND CIVILIAN ORGANIZATIONS

REF: A. MANILA 12296

B. STATE 216846

1. ESSO MANAGER WALLACE INFORMED EMBASSY NOV 5 THAT  
OWING TO CANCELLATION OF TWO TANKERS SCHEDULED TO DELIVER  
CRUDE TO PHILIPPINES IN NOVEMBER, ESSO IS PLANNING  
REDUCED ALLOCATIONS TO ALL CUSTOMERS INCLUDING USG  
MILITARY AND CIVILIAN CONTRACT HOLDERS. PRESENT ALLOCATION  
LEVELS HAD EARLIER BEEN INSTITUTED BASED ON FIRST SIX  
MONTHS DELIVERIES, THUS ELIMINATING ADDITIONAL SUPPLIES  
FOR MARKET GROWTH. MOTOR GASOLINE TO BE REDUCED 20  
PERCENT AND SIMILAR REDUCTION FOR JET FUEL. DIESEL TO  
BE MAINTAINED AT CURRENT LEVELS. FURTHER CUTBACKS LIKELY  
IF CRUDE SUPPLY FURTHER DIMINISHED. IF GOP FAILS TO  
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ADJUST MARKET PRICE UPWARD SHARPLY TO COVER CRUDE PRICE

INCREASES IN LAST TWO MONTHS (LATEST BEING OVER 35 PERCENT EFFECTIVE OCT 16), CUTBACKS COULD APPROACH 50 PERCENT BY END OF NOVEMBER ACCORDING TO WALLACE.

2. WALLACE ALSO CONSIDERS LIKELY STRONG GOP PRESSURE TO REDUCE OR ELIMINATE DELIVERIES TO ALL NON-FILIPINO USERS INCLUDING USG INSTALLATIONS. HITHERTO HE HAS NOT INFORMED OIL INDUSTRY COMMISSION OF DELIVERIES UNDER CONTRACTS WITH USG WHICH AMOUNT TO ONE-EIGHTHS OF ESSO'S SALES. HE FEELS HE MUST PROVIDE INFORMATION TO OIC CHAIRMAN MATHAY AND PRIME COMMODITIES OPERATIONS CENTER AT MEETING NOV 6.

3. EMBASSY MEANWHILE HAS INFORMAL PRELIMINARY REPORT THAT PRIME COMMODITIES COUNCIL MEETING NOV 5 ADOPTED A RATIONING SCHEME FOR PRIVATE VEHICLES TO BE ANNOUNCED NOV 6, PROPOSED A PRIORITY ALLOCATION SCHEME FOR OTHER PETROLEUM USERS TO BE ANNOUNCED BY NOV 12, AND RECOMMENDED MAXIMUM CUTBACKS IN OFFSHORE TYPE DELIVERIES INCLUDING US MILITARY INSTALLATIONS, INTERNATIONAL TRANSPORT BUNKERING, ETC. FURTHER MEETINGS OF GOVERNMENT AGENCIES AND INDUSTRY REPRESENTATIVES BEING HELD TODAY AND TOMORROW.

4. WALLACE ALSO STATED HE BELIEVES REPORTED ARAB GOVERNMENT BAN ON INDIRECT SALES TO US CONSUMERS IS LIKELY TO BE INVOKED TO STOP PETROLEUM DELIVERIES TO US MILITARY BASES FROM HOST COUNTRY REFINERIES. WALLACE ASSUMES HIS PARENT COMPANY EXXON IS IN TOUCH WITH WASHINGTON AGENCIES ON THIS ASPECT OF PROBLEM. ORDER TO ESSO PHILIPPINES WOULD COME FROM HUSTON HEAD OFFICE BASED ON ARAB GOVERNMENT INSTRUCTIONS TO COMPANIES, PRESUMABLY FOLLOWING CONSULTATIONS WITH WASHINGTON.

5. OIL COMPANY MANAGERS DEEPLY CONCERNED BY LIKELIHOOD OF CRITICAL REDUCTION IN PETROLEUM SUPPLIES TO PHILIPPINES WITH SEVERE AFFECT ON ECONOMY. CALTEX, ACCOUNTING FOR 34 PERCENT OF PHILIPPINE MARKET, ANTICIPATES PROBABLE 30 PERCENT CUTBACK TO BE ANNOUNCED NEXT FEW DAYS AS SOON AS WORD RECEIVED FROM CONFIDENTIAL

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HEAD OFFICE OF EXTENT OF CRUDE REDUCED ALLOCATIONS.

6. GOP OFFICIALS INCLUDING PRESIDENT NOW APPEAR TO BE TAKING PROBLEM SERIOUSLY AS INDICATED BY SPATE OF ANNOUNCEMENTS OVER WEEKEND PREPARING PUBLIC FOR RATIONING AND PROPOSING OTHER CONSERVATION MEASURES. GOP ALSO SEEKING NEGOTIATE WITH PRODUCING COUNTRIES FOR DIRECT SUPPLY OF CRUDE OIL, BUT OIL COMPANY MANAGERS DOUBT

THAT ADEQUATE SUPPLIES AND TANKER LIFTING CAN BE  
ARRANGED EXPEDITIOUSLY. COST OF CRUDE WOULD ALSO BE  
ENORMOUS, ESSO ESTIMATES ABOUT DOUBLE PRESENT LANDED  
COST OF \$5.25 PER BBL.

7. WE WILL ATTEMPT IN THE COURSE OF TOMORROW TO CLARIFY BOTH  
GOVERNMENT AND INDUSTRY POSITIONS IN THIS RATHER CONFUSED  
SITUATION. AMBASSADOR HAS BEEN CALLED TO MEETING WITH ACTING  
FOREIGN SECRETARY TOMORROW, AND ASSUMES OIL SITUATION WILL  
BE SUBJECT OF THAT INTERVIEW. IN MENTIME, WE WOULD APPRECIATE  
IMMEDIATE READING FROM THE DEPARTMENT CONCERNING ITS UNDER-  
STANDING OF ACTIONS BEING COMTEMPLATED RE PHILIPPINES BY HOME  
OFFICES OF U.S. OIL COMPANIES OPERATING HERE. SULLIVAN

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Disposition Approved on Date:**  
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